Annual Report
1979

GRAND UNION

GRAND UNION

CONTENTS

Financial Highlights

The Grand Union Company and Subsidiaries

	52 Weeks Ended	
	March 29, 1980	March 31, 1979
Sales	**$3,137,612,000**	$2,398,944,000
Income before income taxes	**48,595,000**	35,004,000
Net income	**30,669,000**	21,863,000
Net income as a percent of sales	**.98%**	.91%
Working capital	**138,514,000**	120,157,000
Ratio of current assets to current liabilities	**1.57 to 1**	1.47 to 1
Number of retail outlets at fiscal year end	**776**	862

Report From The President

The Grand Union Company achieved record sales and earnings during 1979 in an exciting year that saw the introduction of a new style of food retailing to our 108-year-old supermarket chain.

Sales for the fiscal year which ended on March 29, 1980, totaled $3,137,612,000, highest in the Company's history. This compares with sales of $2,398,944,000 for the 1978 fiscal year which ended on March 31, 1979. Net income for the 1979 fiscal year totaled $30,669,000. This contrasts with net income of $21,863,000 for the prior year.

The 1979 and 1978 sales and earnings figures include the results of Colonial Stores, a southeastern supermarket chain, since its acquisition by Grand Union in the late summer and fall of 1978.

The Company's excellent performance is especially significant when viewed in the context of double digit food price inflation during the latter half of the year and a recessionary trend which caused shoppers to buy more cautiously. This, coupled with increased operating costs, also created a more competitive climate.

Nonetheless, we were able to utilize our strong merchandising, operating and financial expertise to cope with rapidly changing conditions and meet both competition and the changing economy aggressively, creatively, and most importantly with success.

In September, 1979, the Company opened its first BASICS Food Warehouse in Sunrise, Florida, as an experimental store. BASICS is a high-volume, low-priced, warehouse-type store carrying some 3,300 different items in the grocery, meat, produce and general merchandise categories.

BASICS operates on a principle of lower operating cost by eliminating the frills of traditional food stores, simple design and a reduced range of merchandise. It readily became apparent that our Sunrise experiment was a success and the decision was made to expand both the number and geographic scope of this type of operation.

There are now 14 BASICS Food Warehouses open in six states along the Eastern seaboard. We are carefully monitoring the performance of each of these units and are actively seeking additional real estate locations throughout our entire operating area as we seek to develop the potential of this concept of food retailing.

Throughout this report, you will see Grand Union's new corporate identification, a plain Grand Union name with a red dot. The symbol was first introduced at our Wyckoff, New Jersey, prototype store in January, 1979, and is now being phased into all aspects of merchandising and operations.

A "Red Dot" program keyed around the new symbol stands for price competitiveness, service and an appealing store design. The Red Dot program has formed the nucleus for an entirely new advertising program which has been introduced into our New York, Florida, Southern and Northern Regions.

Grand Union private label merchandise is now gradually being converted to the new symbol.

During the year, we introduced a limited line of generic products on a test basis into a number of our stores. Based on the popularity of these items, we are now expanding this line and currently have in excess of 50 generic products. We are merchandising these canned and packaged goods under the new "Basics"

label, marking the first introduction of a new product name into our stores in several decades.

The national concern over spiraling inflation led Grand Union in March to cooperate with a request from the President and impose a 30-day freeze on the regular retail price of some 1,500 private label and generic items. The freeze was extended for an additional 30 days in April and expired on May 5. Thus, our Company was in the forefront of public opinion and took a leadership role in helping to stabilize food prices nationally for at least a two-month period.

New store development continued at an excellent pace during the year. We opened 46 new supermarkets, most of them in the larger 28,000 square foot class, while enlarging another nine units and renovating 44 others. At the same time, we closed a total of 117 stores, most of them small, obsolete units in Colonial with a long history of marginal or unprofitable operation.

For the current year, we are planning to open 50 new stores, enlarge 10 units and renovate 56 more. Only a limited number of store closures are planned.

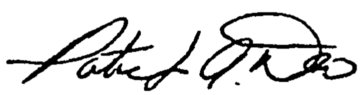
On April 28, 1980, James Wood resigned as Chairman of the Board and Chief Executive Officer. He played a major role in the growth of the Company since assuming a leadership position with the chain in 1974. His resignation was accepted with regret, but with thanks for his numerous accomplishments in aiding the chain's growth.

Bowman Gray III, President of General Occidental, Inc., has been elected non-executive Chairman of the Board. He had served as a Director since 1974. New Board members elected during the year include Roland A.E. Franklin, Chairman of the Board of General Occidental, Inc.; Ian Duncan, a Director of Cavenham Limited, our parent organization; H. Martin Plowden-Roberts, Managing Director of our sister company in the United Kingdom, Allied Suppliers Limited, and James W. Rowe, who was named in October, 1979, as an Executive Vice President.

In addition to Mr. Rowe, there were a number of significant management changes during the year. Ernest H. Berthold was elected Executive Vice President in charge of Merchandising, while Caryle J. Sherwin was elected Executive Vice President in charge of Operations. Joseph H. McCarthy was named Senior Vice President in charge of Grand Union North, a new responsibility which includes supervision of both the New York and Northern Regions. Joseph J. McCaig was elected Senior Vice President with responsibility as President of J. Weingarten Inc. of Houston, Texas, a supermarket chain acquired earlier this year by one of our parent organizations, Cavenham Holdings Inc. Vito A. Cardace was elected Financial Vice President while James E. Herlihy was named Controller.

As Grand Union moves into the decade of the 1980s, we are an energetic and enthusiastic company, delving into new challenges of retailing and trying to perfect even more the methodology by which we supply quality goods to more than 7 million customers a week.

The new decade provides limitless horizons for a company on the move. We are deeply thankful to the more than 33,000 Grand Union and Colonial people who have played such an important role in helping our Company prosper and grow over the years. I know they can be counted upon to give us their continued support.



Patrick A. Deo
President and
Chief Executive Officer

July 25, 1980

...we are well poised to meet the challenges.

General Manager Richard Long reviews an opening week sales circular with a customer and her child at the new Big Star supermarket in Calhoun, Georgia.

Mrs. Shirley Bielicki checks one of the weekly "Red Dot Specials" available at the Big Star supermarket in Marietta, Georgia.

As Grand Union moves into the decade of the 1980s, the Company is well poised to meet the challenges that lie ahead.

Over the last several years, we have been engaged in an extensive program of remodeling older stores to meet today's consumer needs while at the same time carefully evaluating and closing stores that could not compete in today's difficult business environment. Thus as we enter the 1980s, we have a strategically viable nucleus of stores from which to further accelerate our growth.

This expansion is further buoyed by our entry into the limited assortment, warehouse stores field through our BASICS Food Warehouses. Grand Union has taken a leadership position in this new food retailing development through the aggressive growth of BASICS stores throughout the East.

Our enthusiastic "Red Dot" advertising and sales promotion program has ably helped to carry forth the message of quality foods, competitive prices and an attractive store decor, first introduced in our Wyckoff, New Jersey supermarket in early 1979. This program is now being utilized in new and remodeled stores in both the Grand Union and Colonial Divisions.

●SUPERMARKET DIVISION

Within the Supermarket Division, the bulk of our advertising and sales promotion messages took on the "Red Dot" theme this year to coincide with the introduction of our new corporate identity.

In our weekly ads in most areas, the Red Dot symbol now stands for specially priced, quality food buys, supplementing the Green Label savings program adopted earlier.

In line with current trends, we began an intensive program of expanding the hours of store operations. Today, we have 315 stores in both the Grand Union and Colonial Divisions open around the clock with numerous other stores on extended hours. Plans call for a further expansion of this program as conditions permit.

As an incentive to spur additional sales volume, we made extensive use during the year of continuity promotions. These merchandise and game programs, featuring such items as Silverstone cookware, fine China dishes, luggage and glassware and games such as "Instant Vegas Bingo" and "Let's Go to the Races" were widely applauded by our customers.

The realignment of the Company into regional units for merchandising, accounting and data processing was completed following our 1978 acquisition of Colonial Stores. Thus, we now maintain 15 divisions clustered into six operational regions for maximum control. Emphasis this year will be on further sophistication of our financial controls, already considered the best in the American supermarket industry.

Our energy conservation efforts, begun more than five years ago, continue to pay high dividends in decreased energy usage, helping to offset exorbitant utility rate increases which we have had to sustain in some areas.

● BASICS FOOD WAREHOUSES

The phrase "Getting Back to BASICS" is rapidly becoming a catchword for food savings in six Eastern states to exemplify our BASICS Food Warehouse operation.

We currently have 14 of these new discount food outlets in operation in six states. Stores operating now are in Danbury, Bristol, and Meriden, Connecticut; Wood-Ridge and Hackettstown, New Jersey; Marlow Heights, Maryland; Herndon, Virginia; Miami, Sunrise, Miramar, Margate and Hialeah, Florida, and Nanuet and Vails Gate, New York.

These high-volume, low-overhead facilities are managed by a specially-trained team of professionals recruited from within the Grand Union managerial ranks. The stores are supported by separate buying and merchandising staffs at the regional headquarters level.

Our advertising and sales promotion campaigns for BASICS make extensive use of direct mail, newspaper and electronic media advertising, most of it keyed to an institutional theme to explain the difference between the BASICS concept and a traditional supermarket.

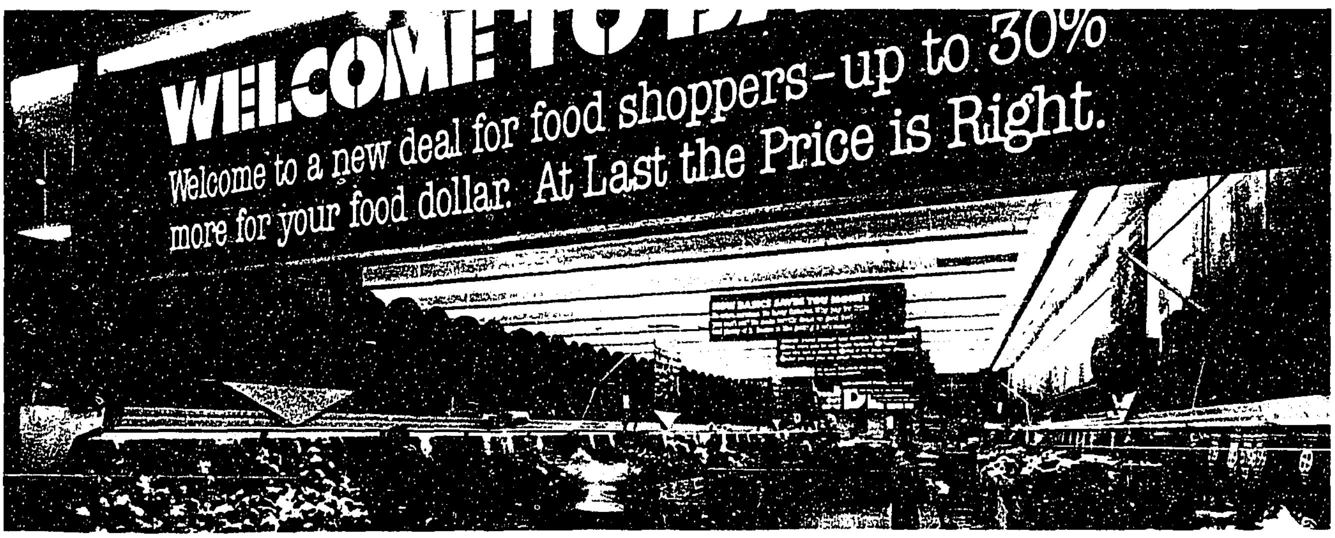
● DISTRIBUTION

We maintain two distinct distribution divisions, one serving Grand Union and the other serving Colonial. Distribution executives route all inbound shipments to our distribution centers, including an increasing amount of merchandise which is backhauled by our own fleets at substantial savings.

Together, the distribution divisions operate 10 Company fleets which handle 85 per cent of our tonnage. They deal with five contract carriers for the remaining distribution needs.

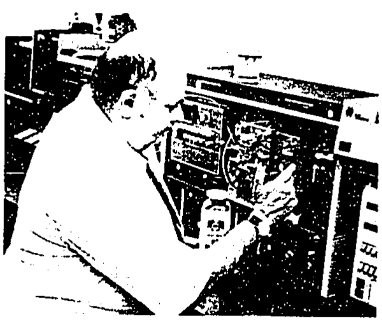
Robert Donaldson, General Manager of our Elmwood Park, New Jersey, Grand Union supermarket speaks with a customer during our 60-day price freeze on some 1,500 private label and generic items.

Gene Hill stacks merchandise in the Company's frozen food warehouse that opened last year in our Waterford, New York, distribution complex.



Customers have reacted enthusiastically to the warehouse food concept being developed by the Company through its BASICS Food Warehouses, such as this one in Wood-Ridge, New Jersey.

John Tibbitts, General Manager of an Atlanta, Georgia, Big Star supermarket delivers merchandise to Mary Divozan, Manager of the Governor's Mansion in Atlanta.



Sam Omansky, Grand Union's Technical Director, performs quality control tests on private label grapefruit juice before it is released for store sale.

A new 30,000 square foot frozen food warehouse was put into operation during the year at our Waterford, New York, distribution center. It replaced an old, obsolete facility.

In addition, we have commissioned the first phase of our three-part rebuilding program for the Atlanta headquarters and distribution center which serves nearly 100 stores throughout Georgia, South Carolina and Alabama. We are also formulating plans to expand our warehouse facilities in the rapidly-growing Florida Region.

The past year was especially difficult in our distribution sector as fuel costs rose some 61 per cent and wage contract settlements reflected the higher rate of inflation experienced in 1979.

As the year progressed, we were able to adjust our operations to help offset these adverse pressures on our business.

● PUBLIC AFFAIRS

In the area of public affairs, the Company greatly stepped up its efforts to control runaway government regulation which tended to impact our operations. Strong efforts were made to promote passage of the recently enacted trucking deregulation bill in Congress with its provision for the liberalization of backhaul regulations. We were encouraged by decisions in many areas which lifted restraints prohibiting store openings on certain days.

We will continue to maintain a high profile on the local, state and national levels to combat ill-conceived and counterproductive measures which hurt both our Company and the more than seven million customers we serve weekly.

● QUALITY CONTROL

Quality control and sanitation are two vitally important elements of everyday supermarket life — and at Grand Union, we pay special attention to both areas.

We maintain a fully-staffed Quality Control Laboratory in our New Jersey headquarters to maintain constant surveillance over the more than 1,500 products which bear the Grand Union and BASICS names. In addition, we utilize independent laboratories for spot checks of our stores and products.

In sanitation, we have a headquarters staff assigned to periodically inspect each store and warehouse to make sure all are in full adherence to Grand Union's rigid standards. All employees are taught the importance of sanitation through continuing education programs conducted at every level of the company.

● GENERALE OCCIDENTALE

Grand Union is an integral part of Generale Occidentale, a large French retailing and financial organization with headquarters in Paris and operations throughout Western Europe and North America.

Since 1973 when Grand Union was acquired by Cavenham Limited, a subsidiary of Generale Occidentale, the Company has been aided by a cross-fertilization of talent across the Atlantic. This unique relationship continues to reap excellent rewards.

Miss Camille Pompa displays some of the BASICS generic products now being sold in Grand Union supermarkets throughout the East.

Consolidated Statement of Income and Retained Earnings

The Grand Union Company and Subsidiaries
(Amounts in thousands)

	52 weeks ended March 29, 1980	52 weeks ended March 31, 1979
Sales	**$ 3,137,612**	$ 2,398,944
Cost of sales	**2,449,697**	1,861,470
Gross profit	**687,915**	537,474
Operating, administrative and general expenses (notes 9 and 10)	**(626,882)**	(494,146)
Interest expense	**(19,764)**	(13,139)
Interest income, principally on temporary cash investments	**7,326**	4,815
Income before income taxes	**48,595**	35,004
Income taxes (notes 2 and 4)	**(17,926)**	(13,000)
Income before minority interest	**30,669**	22,004
Minority interest in earnings of subsidiary (note 1)	**—**	(141)
Net income	**30,669**	21,863
Retained earnings, beginning of year	**95,590**	80,197
	126,259	102,060
Less cash dividends:		
Common	**(15,650)**	(6,400)
Preferred	**(52)**	(70)
Retained earnings, end of year	**$ 110,557**	$ 95,590

See accompanying notes to financial statements.

Consolidated Balance Sheet

The Grand Union Company and Subsidiaries
(Amounts in thousands)

	March 29, 1980	March 31, 1979
ASSETS		
Current assets:		
Cash (note 8)	**$ 31,415**	$ 25,951
Temporary cash investments, at cost (approximates market value)	**34,018**	20,838
Accounts receivable	**21,658**	11,114
Inventories (note 2)	**266,456**	249,231
Prepaid taxes, operating supplies and other	**13,046**	12,155
Properties to be sold in one year (note 2)	**15,489**	55,176
Total current assets	**382,082**	374,465
Property, net (notes 2 and 3)	**244,736**	216,761
Other assets and deferred charges	**21,147**	23,584
Investments, at cost	**19,282**	13,916
Investment in and receivable from affiliates (note 6)	**26,850**	—
Cost in excess of net assets of businesses acquired (notes 1 and 2)	**13,030**	13,176
	$ 707,127	$ 641,902
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt (note 7)	**$ 73**	$ 30,693
Accounts payable and accrued liabilities	**240,268**	213,531
Federal income taxes (notes 2 and 4)	**3,227**	10,084
Total current liabilities	**243,568**	254,308
Long-term debt (note 7)	**119,179**	88,980
Long-term capital lease obligations (note 9)	**93,050**	66,652
Deferred pension obligations (note 2)	**20,559**	21,750
Deferred federal income taxes (note 4)	**11,944**	11,025
Other non-current liabilities	**5,875**	1,005
	494,175	443,720
Stockholders' equity:		
4½% cumulative preferred stock, $50 par value, callable at $52 per share; authorized 116,000 shares, outstanding 23,719 and 31,412 shares respectively (note 5)	**1,186**	1,571
Common stock, $50,000 par value; authorized 900 shares; issued 626.5 shares	**31,327**	31,327
Additional paid-in capital (note 5)	**69,882**	69,694
Retained earnings (note 7)	**110,557**	95,590
Total stockholders' equity	**212,952**	198,182
	$ 707,127	$ 641,902

See accompanying notes to financial statements.

Consolidated Statement of Changes in Financial Position

The Grand Union Company and Subsidiaries
(Amounts in thousands)

	52 weeks ended March 29, 1980	52 weeks ended March 31, 1979
FUNDS PROVIDED:		
Net income	**$ 30,669**	$ 21,863
Charges to net income not affecting working capital:		
Depreciation and amortization:		
Property owned	**28,733**	22,921
Property leased	**4,566**	3,694
Other	**1,237**	652
Deferred federal income taxes	**919**	(597)
Working capital provided from operations	**66,124**	48,533
Increase in long-term debt	**30,146**	10,000
Increase in long-term capital lease obligations	**39,996**	9,837
Book value of property dispositions:		
Property owned	**16,421**	5,230
Property leased	**13,543**	1,118
	166,230	74,718
FUNDS USED:		
Acquisition of Colonial Stores Inc. (less working capital):		
Property, plant and equipment	—	77,732
Other non-current assets	—	29,568
Non-current liabilities	—	(62,483)
Property additions:		
Property owned	**53,900**	41,529
Property leased	**37,338**	3,268
Dividends paid	**15,702**	6,470
Reduction in long-term capital lease obligations	**13,635**	4,719
Increase in investments	**5,366**	5,151
Investment in and receivable from affiliates	**26,850**	—
Other, net	**(4,918)**	124
	147,873	106,078
Increase (decrease) in working capital	**$ 18,357**	$ (31,360)
CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash	**$ 5,464**	$ 25,796
Temporary cash investments	**13,180**	(78,817)
Accounts receivable	**10,544**	3,859
Inventories	**17,225**	77,479
Prepaid taxes, operating supplies and other	**891**	2,199
Properties to be sold in one year	**(39,687)**	53,093
	7,617	83,609
Increase (decrease) in current liabilities:		
Short-term debt	**(30,620)**	30,693
Accounts payable and accrued liabilities	**26,737**	78,272
Federal income taxes	**(6,857)**	6,004
	(10,740)	114,969
Increase (decrease) in working capital	**$ 18,357**	$ (31,360)

See accompanying notes to financial statements.

Notes to Financial Statements

The Grand Union Company and Subsidiaries

NOTE 1 - ORGANIZATION:

The Company is a wholly-owned subsidiary of Cavenham (USA) Inc. ("USA") which in turn is a wholly-owned subsidiary of Cavenham Holdings Inc. ("Holdings").

On August 29, 1978 and November 20, 1978 the Company acquired 91% and 9%, respectively, of the outstanding shares of Colonial Stores Incorporated ("Colonial"), a retail food chain, for cash approximating $139,000,000. In connection with the acquisition and the subsequent merger of Colonial into the Company on February 3, 1979, Colonial's stock option plans were terminated, its outstanding 4% cumulative preferred stock was redeemed and the Company assumed all obligations with respect to the outstanding $15,000,000 principal amount of Colonial's 8% Sinking Fund Debentures, due 1996.

The acquisition of the Colonial shares has been accounted for as a purchase and accordingly the difference between the fair value of net tangible assets acquired and the purchase price has been recorded as an intangible amount of $5,836,000. The accompanying financial statements include the results of operations of Colonial based on the varying levels of ownership from the respective dates of acquisition.

The following unaudited pro forma summary represents the consolidated results of operations of the Company as though Colonial had been acquired at the beginning of the year presented:

	52 weeks ended March 31, 1979 (in thousands)
Sales	$2,876,000
Net income	$ 25,300

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES:

The significant accounting principles affecting the Company's financial statements are summarized below.

Fiscal Year: The Company's fiscal year ends on the Saturday nearest the last day of March.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated.

Inventory Valuation: Inventories are valued at the lower of cost (first-in, first-out) or market value, cost being determined using the retail method for store inventories and average cost for warehouse and other inventories.

Property: The costs of significant additions, renewals and improvements of leased and owned properties are capitalized. Properties held under capital leases are capitalized net of any gains on sale and leaseback transactions and are amortized using the straight-line method over the life of the lease. Depreciation on owned property is computed principally on the straight-line method, to amortize the cost of depreciable properties over their useful lives. Leasehold improvements are amortized over the shorter of the terms of the lease or their estimated useful lives. Maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense when incurred.

Certain facilities held for sale or sale and leaseback have been classified as properties to be sold in one year.

Pre-Opening Costs: Store pre-opening costs are charged to expense as incurred.

Cost in Excess of Net Assets of Businesses Acquired: Amounts arising from the acquisition of Colonial are being amortized on a straight-line basis over forty years (see Note 1).

Management does not believe that the remaining amounts, which arose from acquisitions made prior to November 1, 1970, have diminished in value and accordingly is not amortizing such amounts.

Income Taxes: The Company is a party with Cavenham (USA) Inc. and Cavenham Holdings Inc. to a tax sharing agreement whereby the consolidated operations of the Company will be included in consolidated tax returns filed by Holdings. Under the agreement, the Company receives tax sharing payments equal to 15% of the amount, if any, by which the Company's consolidated federal income tax liability exceeds the consolidated tax liability of Holdings. Such sharing payments are applied as a reduction of the Company's consolidated federal income tax provision.

Investment tax credits are accounted for as a reduction of income taxes in the year that the credits arise.

Pension Plans: The Company maintains non-contributory, trusteed pension plans covering substantially all eligible employees and a supplemental non-qualified, non-trusteed plan for certain executives. The Company's policy is to fund pension costs accrued. Pension expense for the non-contributory plans consists of normal costs plus amortization of past service costs over a forty year period, less amortization of the deferred pension obligation for accrued vested benefits arising from the acquisition of Colonial over a fourteen year period.

NOTE 3 - PROPERTY:

Property, at cost, consists of the following:

	March 29, 1980	March 31, 1979
	(in thousands)	
Property owned:		
Land	$ 5,390	$ 6,145
Buildings	6,990	6,200
Fixtures and equipment	245,213	225,913
Leasehold improvements	54,326	54,366
	311,919	292,624
Less - accumulated depreciation and amortization	150,268	139,719
Property owned	161,651	152,905
Property leased:		
Land and buildings	93,207	73,154
Equipment	4,420	4,898
	97,627	78,052
Less - accumulated amortization	14,542	14,196
Property leased	83,085	63,856
Property, net	$ 244,736	$ 216,761

NOTE 4 - INCOME TAXES:

The components of income tax expense are as follows:

	52 weeks ended March 29, 1980	52 weeks ended March 31, 1979
	(in thousands)	
Federal income tax expense:		
Currently payable net of tax sharing credit	$ 13,521	$ 10,891
Deferred, consisting of:		
Excess of tax over book depreciation	1,909	1,283
Gains on sale-leaseback	(29)	(1,507)
Other	(1,021)	50
State income tax	3,546	2,283
Total income tax provision	$ 17,926	$ 13,000

The reconciliation of the provision for income taxes computed at the federal statutory rate to the reported provision for income taxes is as follows:

	52 weeks ended March 29, 1980	52 weeks ended March 31, 1979
	(in thousands)	
Provision computed at federal statutory tax rate	$ 22,355	$ 16,627
Increase (decrease) in the provision resulting from:		
Tax sharing benefits	(1,031)	(796)
Current year's investment tax credit	(3,700)	(2,711)
Income taxed at capital gains rate	(1,269)	(75)
State and local taxes, net of federal tax benefit	1,915	1,199
Other, net	(344)	(1,244)
Total income tax provision	$ 17,926	$ 13,000

NOTE 5 - STOCKHOLDERS' EQUITY:

Changes in additional paid-in capital and treasury stock are as follows:

	Paid-in Capital	Treasury Stock
	(in thousands)	
Balance April 1, 1978	$ 69,629	$ —
Purchase of 3,155 shares of preferred stock	—	92
Retirement of 3,155 preferred shares held in treasury	65	(92)
Balance March 31, 1979	69,694	—
Purchase of 7,693 shares of preferred stock	—	196
Retirement of 7,693 preferred shares held in treasury	188	(196)
Balance March 29, 1980	$ 69,882	$ —

NOTE 6 - INVESTMENT IN AND RECEIVABLE FROM AFFILIATES:

In January, 1980, the Company acquired $18,850,000 (1,885 shares) of 10% cumulative preferred stock of Cavenham Texas Inc., a subsidiary of Holdings. In addition, the Company loaned Holdings $8,000,000 which provides for interest based upon the prevailing prime rate (averaging 16.5%) and is due November 1984.

NOTE 7 - DEBT:

Debt consists of the following:

	March 29, 1980	March 31, 1979
	(in thousands)	
8.95% and 8.4%, promissory notes, respectively	$ 95,000	$ 65,000
8% Sinking Fund Debentures less unamortized discount of $967,000 and $1,020,000 resulting in an effective rate of 10%	14,033	13,980
Note payable to parent	10,000	15,000
Notes payable to banks due through April 30, 1979, interest at 10½% to 11⅛%	—	15,000
Mortgages, interest at 7¾% to 8%	219	10,693
	119,252	119,673
Less - amount due within one year	73	30,693
Long-term debt	$ 119,179	$ 88,980

On May 18, 1979, the 8.4% Promissory Notes were refinanced pursuant to a new 8.95% Promissory Note Agreement amounting to $95,000,000. The 8.95% Note Agreement requires annual repayment of principal of $5,000,000 from 1984 to 1985, $6,150,000 from 1986 to 1998 and $5,050,000 in 1999.

As discussed in Note 1, the Company assumed Colonial's 8% Sinking Fund Debentures due 1996 which require annual sinking fund payments of $800,000 beginning in 1982 and $3,800,000 in 1996.

The above agreements contain various restrictions on the Company including provisions with respect to long-term debt and the payment of dividends. At March 29, 1980, approximately $35,900,000 of the Company's retained earnings were free of restrictions.

The Note payable to parent at March 29, 1980 totaling $10,000,000 provides for interest based on prevailing rates which averaged 17.5% during the current fiscal year. The note provides for repayment in January 1982.

NOTE 8 - COMPENSATING BALANCES AND BORROWING ARRANGEMENTS:

The Company has unused borrowing arrangements with a number of banks aggregating $26,900,000. To the extent that compensating balances are maintained, a substantial portion of such balances would normally be covered by incompleted transactions with banks.

NOTE 9 - PROPERTY LEASES:

The Company operates principally in leased stores, distribution facilities and offices and, in most cases, holds renewal options with varying terms. Many of the leases contain escalation clauses which provide for increased rentals based upon increases in real estate taxes and lessors' operating expenses.

The following is a schedule by years of future minimum payments under capital leases together with the present value of the net minimum lease payments as of March 29, 1980.

	Amount (in thousands)
1981	$ 12,855
1982	12,744
1983	19,690
1984	20,432
1985	10,302
Later years	159,920
Total minimum lease payments	235,943
Less: amount representing estimated executory costs included in total minimum lease payments	13,180
Net minimum lease payments	222,763
Less: amount representing interest	126,167
Present value of net minimum lease payments	96,596
Less: current portion of obligations under capital leases	3,546
Long-term capital lease obligations	$ 93,050

The minimum lease payments shown above do not include future minimum sublease rentals of $4,658,000 under noncancellable subleases or contingent rentals which may be paid under certain store leases on the basis of percentages of sales in excess of stipulated amounts.

The following is a schedule by years of future minimum rental payments required, less minimum sublease rental income, under operating leases that have initial lease terms in excess of one year as of March 29, 1980.

	Amount (in thousands)
1981	$ 34,516
1982	32,324
1983	29,834
1984	26,798
1985	23,828
Later years	203,947
Total minimum payments	351,247
Less: sublease rental income	11,676
Net minimum rentals	$ 339,571

The following schedule shows the composition of total rental expense for all operating leases:

	52 weeks ended March 29, 1980	March 31, 1979
	(in thousands)	
Minimum rentals	$ 35,426	$ 28,369
Contingent rentals	5,466	3,762
Less: sublease rentals	(2,827)	(3,062)
	$ 38,065	$ 29,069

NOTE 10 - PENSION PLANS

Pension expense under the Company's pension plans described in Note 2 was $9,537,000 and $4,768,000 for the 52 weeks ended March 29, 1980 and March 31, 1979, respectively.

NOTE 11 - CONTINGENCIES:

The Company has been named as a co-defendant in numerous similar antitrust actions brought by producers and feeders of cattle. Each of the actions allege violations by the defendants of the federal antitrust laws in connection with the purchase and sale of beef and seeks damages and injunctive relief. Certain of these lawsuits were previously dismissed. The plaintiffs appealed and on August 17, 1979 the Court of Appeals for the Fifth Circuit reversed the dismissals and reinstated these cases. The Company and its co-defendants petitioned the Court of Appeals for a rehearing which has been denied. The remaining lawsuits are in early pre-trial stage. It is not possible to predict with any degree of certainty the ultimate outcome of any of these lawsuits since, among other things, the conduct of the other defendants as alleged co-conspirators could affect the liability of the Company. The management of the Company believes that the Company has good and meritorious defenses to each of such lawsuits.

A purported class and derivative action has been brought against the Company and its parents seeking the rescission of the merger in which Cavenham (USA) Inc. acquired the remaining 19% minority interest in the Company's common stock and the recovery of unspecified damages, costs and attorneys' fees. The Company and its parents believe that its actions have been entirely proper and lawful, and intend to defend the lawsuit vigorously.

In connection with the Company's acquisition of Colonial Stores Incorporated, the Federal Trade Commission has initiated a proceeding against the Company, Cavenham (USA), Cavenham Holdings and Colonial. The Commission contends that the acquisition violates the antimerger provisions of the federal antitrust laws and has advised the Company that it may order relief, including, but not limited to, divestiture of Colonial and prohibition of further acquisitions of a retail food business for 10 years without the Commission's prior approval. The management of the Company believes it has good and meritorious defenses to the Commission's claims.

● NOTE 12 - SUPPLEMENTAL INFORMATION ON THE EFFECTS OF CHANGING PRICES (UNAUDITED):

Statement of Income adjusted for changing prices:

(in thousands)

	As Reported in the Primary Statement (Historical Dollars)	Adjusted for General Inflation (Constant Dollars)	Adjusted for Changes in Specific Prices (Current Costs)
Sales	$ 3,137,612	$ 3,137,612	$ 3,137,612
Cost of sales	2,449,697	2,484,310	2,484,310
Gross profit	687,915	653,302	653,302
Operating, administrative and general expenses*	626,882	639,655	637,723
Interest expense	19,764	19,764	19,764
Interest income	(7,326)	(7,326)	(7,326)
Income (loss) before income taxes	48,595	1,209	3,141
Income taxes	17,926	17,926	17,926
Net income (loss)	$ 30,669	$ (16,717)	$ (14,785)
Increase in general price level of inventories and property held during the year			$ 74,877
Effect of increase in specific prices (current costs)**			44,375
Excess of increase in general price level over increase in specific prices			$ 30,502

* The straight line method of depreciation was used for presentations of the effects of changing prices and is the principal method used in the primary statements. Depreciation and amortization expenses calculated for the primary statements, general inflation and specific prices were $34,536, $44,949 and $43,452 respectively.

** At March 29, 1980, current cost of inventory was $266,456 and current cost of property, net of accumulated depreciation was $300,997.

Five Year Comparison of Supplementary Financial Data Adjusted for Effects of Changing Prices

Fiscal Year Ended: *(in thousands)*	March 29, 1980	March 31, 1979	April 1, 1978	April 2, 1977	April 3, 1976 (a)
Historical amounts adjusted for general inflation, (1979 Constant Dollars)					
Sales	$3,137,612	$2,695,065	$2,010,612	$2,109,704	$2,211,213
Net loss (b)	$ 16,717	—	—	—	—
Net assets at year-end (b)	$ 251,058	—	—	—	—
Purchasing power gain on net monetary items (b)	$ 48,105	—	—	—	—
Average consumer price index	224.8	200.1	184.4	172.9	163.8
Current Cost Information					
Net loss (b)	$ 14,785	—	—	—	—
Net assets (b)	$ 233,717	—	—	—	—
Excess of increase in general price level over increase in specific prices (b)	$ 30,502	—	—	—	—

(a) 53-week fiscal year

(b) Amounts prior to 1979 are not required.

EXPLANATORY NOTES TO SUPPLEMENTAL INFORMATION

The above supplemental information reflects the effects of changing prices on the financial statements in accordance with the provisions of Financial Accounting Standards Board Statement 33 (FASB 33). The disclosures are intended to present the effects of increases in the general price level on the purchasing power of the dollar (constant dollar) and the effects of specific price changes in certain assets used by the Company (current costs) as compared to the primary financial statements (historic costs). Because of the uncertainty as to which method of inflation accounting is most appropriate, the FASB requires that both methods be presented.

Constant dollar accounting is a method of reporting financial statement amounts in dollars each of which is estimated to have the same general purchasing power. Such amounts are measured by using the average Consumer Price Index for All Urban Consumers (CPI-U) for the current fiscal year. Under this method, depreciation expense and cost of sales are increased as a result of the increase in the CPI-U level since the date that the related property and inventories were acquired.

Current cost accounting is a method of measuring and reporting assets and expenses related to the use or sale of such assets at their current costs or lower recoverable amounts as of the balance sheet date. The current cost of inventory closely approximates the amount reported in the primary financial statements due to the relatively short time lag between inventory purchases and the subsequent sale. The current costs of property were determined using specific indices derived from governmental and private organizations.

FASB 33 further provides that income tax expense should not be restated since income taxes are determined and payable on the basis of historical income.

The gain in purchasing power of net monetary liabilities is derived from the concept that monetary assets decreased and monetary liabilities increased in purchasing power value during the period due to inflation. Purchasing power gain has been computed on average net monetary liabilities multiplied by the change in CPI-U for the year.

The excess of the increase in general price levels over the increase in specific prices results from the effects of general inflation, measured by the CPI-U, compared to the specific price increases actually experienced by the Company.

The concepts and procedures established by the FASB for preparation of these disclosures are complex and require the use of assumptions and estimates based on available information. The accompanying information therefore should be viewed only as an approximation of inflationary effects.

Report of Independent Accountants

Price Waterhouse & Co.

Hackensack, New Jersey
April 28, 1980

To The Board of Directors and Stockholders of The Grand Union Company:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of The Grand Union Company and its subsidiaries at March 29, 1980 and March 31, 1979, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Management Discussion and Analysis of the Consolidated Statement of Income and Retained Earnings

Fiscal Year 1979 vs. Fiscal Year 1978

Sales and gross profit increased as compared to the preceding year primarily due to the inclusion of Colonial Stores Inc. for the full year. These increases were partially offset by the discontinuance of the Grand Way general merchandise division during the current year. Operating, administrative and general expenses as well as net income were similarly affected by the increased number of stores.

The increase in interest expense reflects the higher level of indebtedness during the current year. The increase in interest income is due to the higher level of temporary cash investments and interest rates during the current year.

The effective tax rate of 37% for 1979 was comparable to 1978.

Fiscal Year 1978 vs. Fiscal Year 1977

The increases in the reported levels of revenues, expenses and net income for the current year are primarily caused by the increase in the number of stores resulting from the acquisition of Colonial Stores Inc. during the year.

The increase in interest expense reflects the higher level of indebtedness during the current year. The decrease in interest income reflects the reduction in temporary cash investments resulting from the acquisition of Colonial.

The effective tax rate for 1978 was 37% as compared to 34% for 1977. The increase primarily resulted from the benefit of non-recurring capital loss carryforwards in the prior year and a relatively lower benefit of the Company's share of tax savings as a participant in the Holdings tax sharing agreement.

GRAND UNION

Five-Year Financial Summary

The Grand Union Company and Subsidiaries

(Amounts in thousands)

For the Fiscal Year Ended	March 29, 1980	March 31, 1979 (a)	April 1, 1978	April 2, 1977	April 3, 1976 (b)
Sales	**$3,137,612**	$2,398,944	$1,649,274	$1,622,633	$1,611,195
Cost of sales	**2,449,697**	1,861,470	1,283,853	1,266,057	1,274,485
Gross profit	**687,915**	537,474	365,421	356,576	336,710
Operating, administrative and general expenses	**(626,882)**	(494,146)	(340,410)	(323,235)	(304,255)
Provision for store closings	—	—	—	—	(8,150)
Interest expense	**(19,764)**	(13,139)	(8,369)	(5,939)	(6,241)
Interest income, principally on temporary cash investments	**7,326**	4,815	5,361	2,453	2,651
Income before income taxes	**48,595**	35,004	22,003	29,855	20,715
Provision for income taxes	**(17,926)**	(13,000)	(7,384)	(12,436)	(9,247)
Income before minority interest	**30,669**	22,004	14,619	17,419	11,468
Minority interest in earnings of subsidiary	—	(141)	—	—	—
Net income	**$ 30,669**	$ 21,863	$ 14,619	$ 17,419	$ 11,468
Net income as a percent of sales	**.98%**	.91%	.89%	1.07%	.71%
At the Year End					
Ratio of current assets to current liabilities	**1.57 to 1**	1.47 to 1	2.09 to 1	2.01 to 1	1.97 to 1
Number of stores at year end:					
Supermarkets	**769**	840	479	484	487
General merchandise stores	**7**	22	23	23	23

(a) Includes results of Colonial Stores Incorporated from dates of acquisition (see note 1).
(b) 53-week fiscal year.

BOARD OF DIRECTORS

Bowman Gray III
Chairman of the Board, President,
General Occidental, Inc

Patrick A. Deo
President and
Chief Executive Officer,
The Grand Union Company

Emerson E. Brightman
Executive Vice President (Retired),
The Grand Union Company

Thomas R. Doyle
Executive Vice President (Retired),
The Grand Union Company

Ian M. Duncan
Director,
Cavenham Limited

Roland A.E. Franklin
Chairman of the Board,
General Occidental, Inc.

Alan C. Goulding
Executive Vice President
and President
of Colonial Stores Division,
The Grand Union Company

Dr. Rafael Pico
Vice Chairman (Retired),
Banco Popular de Puerto Rico

Arthur Ross
Vice Chairman
and Managing Director,
Central National Corporation

Lionel J. Ross
Financial Director,
Cavenham Limited

Earl R. Silvers, Jr.
Vice President and Secretary,
The Grand Union Company

H. Martin Plowden-Roberts
Managing Director,
Allied Suppliers Limited

James W. Rowe
Executive Vice President and
Assistant to the President,
The Grand Union Company

OFFICERS

Patrick A. Deo
President
and Chief Executive Officer

Ernest H. Berthold
Executive Vice President
Merchandising

Alan C. Goulding
Executive Vice President and
President of Colonial Stores Group

James W. Rowe
Executive Vice President and
Assistant to the President

Caryle J. Sherwin
Executive Vice President
Operations

Joseph J. McCaig
Senior Vice President and President
of J. Weingarten, Inc.

Joseph H. McCarthy
Senior Vice President
Grand Union North

P. Louis Sherwood
Senior Vice President
Development

Vincent J. Veninata
Senior Vice President - Services

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Financial Vice President

Bertram S. Kaiser
Vice President - General
Merchandise and Grand Catalog
Showrooms

J. Barron Leeds
Vice President - Labor Relations

Rodney L. Renne
Vice President - Distribution

William K. Rotert
Vice President - Operations Control

Russell W. Schroeder
Vice President - Management
Information Systems

Earl R. Silvers, Jr.
Vice President and Secretary

William G. Spearman
Vice President - Southern Region

James E. Herlihy
Controller

Roger W. Kennedy
Treasurer

Baxter T. Duffy
Assistant Secretary

J. Al Friday
Assistant Secretary

Frederick H. Guntsch
Assistant Secretary

GRAND UNION

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